

DOCKET SECTION

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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D. C. 20268-0001

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Docket No. R97-1

REBUTTAL TESTIMONY  
OF  
HALSTEIN STRALBERG

ON BEHALF OF  
ALLIANCE OF NONPROFIT MAILERS,  
AMERICAN BUSINESS PRESS,  
COALITION OF RELIGIOUS PRESS ASSOCIATIONS,  
DOW JONES & COMPANY, INC.,  
MAGAZINE PUBLISHERS OF AMERICA,  
THE MCGRAW-HILL COMPANIES, INC.,  
NATIONAL NEWSPAPER ASSOCIATION,  
AND  
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## AUTOBIOGRAPHICAL SKETCH

1 My name is Halstein Stralberg. I am the manager of the Management Sciences  
2 Division at Universal Analytics Inc. (UAI), a management consulting firm in  
3 Torrance, California. For a detailed sketch of my autobiography, please see my direct  
4 testimony in this docket (TW-T-1).

### 5 I. PURPOSE OF TESTIMONY

6 The main purpose of this testimony is to rebut UPS witness Sellick (UPS-T-2). I also  
7 address and rebut the testimony of UPS witness Neels (UPS-T-1) with respect to his  
8 belief that "Common sense indicates that labor costs should be fully variable."

9 Sellick proposes a scheme for distributing clerk and mailhandler costs to subclasses  
10 that is almost exactly the same as proposed by USPS witness Degen, with one crucial  
11 difference. Degen's method was designed to implement witness Bradley's volume  
12 variability factors. His choice of "cost pools" (though not the distribution  
13 methodology he subsequently developed and applied to those pools) was  
14 determined by Bradley's econometric study of volume variability.

15 While rejecting the very basis upon which it was founded (i.e., Bradley's  
16 variabilities) Sellick is unreserved in his enthusiasm for Degen's approach. Having  
17 done nothing to determine whether Degen's approach reflects operational realities,  
18 having made no effort to validate any of Degen's numerous assumptions, Sellick  
19 opines that this approach "links the distribution of mixed mail and 'overhead' (not  
20 handling mail) costs with the operational characteristics of mail processing." UPS-T-  
21 2 at 4: Tr. 26/14163. Sellick is not qualified to make such a judgment. As his cross  
22 examination showed, he has only a vague conception of Degen's method and the  
23 numerous questions and implications it raises.<sup>1</sup>

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<sup>1</sup> See, for example, Tr. 26/14260-62:

1 An indispensable requirement for a correct cost distribution is that one must  
2 understand mail processing functions and the dynamic interactions among them,  
3 including the movements of mail and of people among processing functions and  
4 the constraints and incentives that drive postal managers' staffing and scheduling  
5 decisions. It is particularly necessary to understand the fundamentally different  
6 roles played by piece distribution operations and the various "allied" operations that  
7 serve them.

8 Witness Bradley's econometric models did recognize the dynamic interactions  
9 among piece distribution functions and between allied operations and piece  
10 distribution. Sellick -- like Degen before him -- ignores all such interactions, treating  
11 the numerous "cost pools" as separate compartments.<sup>2</sup> As I show in Section II, the  
12 approach adopted by Sellick is contradicted by Bradley in the one area where a direct  
13 comparison between Bradley's and Degen's results is possible, namely at the allied  
14 operations.

- 
- (1) Sellick stated that he has not examined Degen's particular cost pools to determine whether "they accurately segregate mail processing cost functions into discrete areas" and has not considered any alternative groupings (14260, ll. 13-23);
  - (2) he stated that he has no opinion as to whether manual sortation of incoming flats to carrier route and manual outgoing flat primary sortation for previously unsorted flats are part of the same Degen cost pool, whether it makes any sense for them to be in the same pool or whether the two functions differ in their relative composition of First Class, Periodicals and Standard A mail (14262-64);
  - (3) when asked "whether Degen followed Bradley's analysis in order to determine his cost pools," he answered that there is some "relationship between the two," that he "doesn't recall which one was the origin of the other," but that he does know "they have the same - generally the same set of pools" (14260, l. 24-261, l. 7).

<sup>2</sup> Even UPS witness Neels appeared in his cross-examination to recognize some of the dynamic interactions between mail processing activities, particularly the tendency to use manual sorting as a reserve capacity in the automated environment, and the fallacy of treating different activities as separate from each other. Tr. 28/15792-93. Sellick shows no sign of even having considered these issues, which are crucial for correct cost distribution.

1 The most serious problems with the Sellick/Degen approach are rooted in an  
2 incorrect interpretation of the MODS/IOCS data on allied operations. Section III  
3 below demonstrates that some of the interaction between these operations and piece  
4 distributions can be analyzed using available data.

5 Sellick attempts to justify his "Degen without Bradley" proposal by claiming that  
6 there are problems with the MODS volume data but no problem at all with the  
7 MODS workhour data. In fact, problems with both have been reported in this  
8 docket. Section IV presents an analysis of the MODS system, based on my  
9 observations of that system over almost 25 years, and shows that both the volume  
10 and workhour data in MODS can be used for the purposes to which Bradley puts  
11 them, as long as one properly recognizes their limitations.

12 Finally, Section V describes some common sense reasons why volume variability in  
13 mail processing must be substantially less than 100%, contrary to the testimony of  
14 witness Neels (UPS-T-1 at 5, 48: Tr. 28/15591, 15634).

## 15 **II. BRADLEY'S VARIABILITY RESULTS AT ALLIED OPERATIONS CONTRADICT** 16 **SELICK'S RESTRICTION OF DISTRIBUTION TO MODS COST POOLS.**

17 As discussed in the next section, the MODS/IOCS data at allied operations indicate  
18 that Sellick and Degen over-attribute costs at allied operations to flat mail and  
19 under-attribute costs to letter mail. Indications to the same effect can be extracted  
20 from witness Bradley's results, which Degen was supposed to implement.

21 In his analysis of four major "allied" MODS cost pools, including the platform pool,  
22 Bradley used as "cost drivers" two variables each (including one "lag" variable) for  
23 piece handlings at automated, mechanized and manual letter operations, and at  
24 mechanized and manual flat operations. For each such cost driver, Bradley  
25 estimated a coefficient representing the contribution that the corresponding type of  
26 mail makes to the cost variability at each allied operation.

27 Bradley's results are summarized in his Table 8 (USPS-T-14 at 63.) Adding up the  
28 variability coefficients (including lag variable coefficients) for the platform cost pool

1 that are related to letters gives a total variability at platforms associated with letters  
2 equal to 56.6%. The corresponding variability associated with flats is 16%. The  
3 variability in platform costs due to letters is more than 3.5 times larger than the  
4 variability due to flats. Stated differently, the letter-related marginal costs at  
5 platforms are 3.5 times larger than the flat-related marginal costs.

6 I have compared these numbers with Degen's results, as expressed by the tables in  
7 USPS LR-H-320. According to those tables, Degen attributed 34% of the volume  
8 variable costs at platforms to flat mail. Since he used a variability factor of 0.726, he  
9 attributed  $0.726 \times 34 = 24.7\%$  of all accrued MODS platform costs to flats, whereas  
10 according to Bradley the variability relative to flats is only 16%. For letters, Degen  
11 attributed 38.1% of accrued (50% of the volume variable) platform costs, even  
12 though Bradley found a 56.6% variability relative to letters. Degen's ratio of  
13 attributed letter to flat costs is 1.47 to one, versus the 3.5 ratio indicated by Bradley's  
14 results.<sup>3</sup>

15 Only 37% of the costs incurred at the MODS platform cost pool involve handling of  
16 mail. The remaining 63% are not handling costs. Sellick approves of Degen's  
17 attributing the 63% based on the 37% that involve mail handling. But if this results  
18 in a 1.47 ratio of letter to flat costs while the ratio of total marginal costs for letters  
19 and flats, according to Bradley, is 3.5 to 1, this can only mean that most platform not  
20 handling costs are causally related to letters and not to flats, that Degen's  
21 assumptions are contradicted by the only record evidence on causality, and that  
22 Degen's distribution is wrong. Sellick has not subjected Degen's assumption to  
23 critical examination, and he is apparently unaware that those assumptions embody  
24 empirical claims that can be evaluated against substantial existing evidence of what  
25 actually occurs in the mail processing system. Sellick's uncritical and uninformed  
26 adoption of Degen's method, therefore, is without probative value and deserves no  
27 weight in the Commission's consideration of the issues that Sellick addresses.

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<sup>3</sup> Since the tables in USPS LR-H-320 exclude Priority and Express Mail, it is possible that Degen in reality has attributed even more cost to flats than indicated above.

1 The conclusion that letters represent most of the marginal costs at platforms is  
2 reasonable when one considers that postal managers must staff for peak volumes of  
3 high priority mail. The major peak affecting mail processing in MODS facilities is  
4 that associated with the late afternoon/early evening arrival of collection mail,  
5 which is mostly letter mail. Anyone watching the platform in a major mail  
6 processing facility in the late afternoon will have seen how the scene changes from  
7 one of almost complete calm to complete bedlam in a relatively short time, and  
8 then returns to relative calm with only occasional truck arrivals again two or three  
9 hours later.<sup>4</sup>

10 Flat mail also arrives at postal platforms and requires handling. But a large portion  
11 of this volume is brought by bulk mailers who for the most part make arrangements  
12 with facility managers to come at a convenient time, i.e. to enter their mail outside  
13 the main processing peaks, when employees that otherwise would be unoccupied  
14 are available to handle it. It is therefore not surprising that Bradley's regression  
15 analysis found high platform costs to be strongly associated with high letter  
16 volumes, but much less associated with high flats volumes.

17 Sellick adopts one of Degen's major hypotheses, that not handling costs are causally  
18 related only to the handling costs within the same cost pool and therefore should be  
19 attributed with the same attribution ratios as those found for the handling costs.  
20 But the only actual analysis of causality available to Sellick, or Degen, is Bradley's  
21 analysis of volume variability, and his results contradict Degen's hypothesis.

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<sup>4</sup> As Bradley points out: "The platform activity is a good example of a support activity that has some basic functions that must be performed which are not highly correlated with volume. Mail handlers must be readily available to unload trucks as they come to the facility. The arrival of trucks is not perfectly predictable and is subject to peaking. The platform activity must therefore provide some reserve capacity and this reserve capacity does not increase proportionately with volume." USPS-T-14 at 62.

### III. THE DYNAMIC INTERACTION BETWEEN POOLS DEMONSTRATES THAT A POOL-BY-POOL DISTRIBUTION OF PROCESSING COSTS IS ERRONEOUS.

Developing models to represent the movement of mail and people between mail processing operations, and the multiple factors that affect the assignment of personnel and cost accrual at these operations (e.g. mail arrival patterns, dispatch schedules, work restrictions), and developing meaningful groupings of processing operations that can be tied to groupings of MODS numbers are challenging tasks in modeling a single facility, and even more difficult if one tries to model a large group of facilities such as all MODS offices. Sellick has no experience in this area, undertook no independent analysis and appeared to have no knowledge about the interactions among cost pools.

The most difficult modeling task involves "allied" operations, where employees perform many different activities. Generally, their tasks include preparing mail for piece distribution, bringing the prepared mail to distribution operations and retrieving mail that already has been sorted, and preparing for dispatch the sorted mail as well as the "direct" mail that, due to presortation, bypasses the piece distribution functions. These activities cannot be segregated by MODS numbers, for the simple reason that it would be impractical to have employees clock in and out each time they switch to a new activity. The task of modeling allied labor costs is further complicated by the tendency for temporarily inactive personnel to be sent to the allied operations, where productivity is not monitored.

These complications become formidable if one attempts to distribute allied labor costs among subclasses. To do so accurately, one must distinguish between activities that serve the letter, flat and parcel sorting operations, and activities that serve "direct" mail that, due to presortation, bypasses piece sorting operations. Generally, mail that bypasses piece distribution also incurs relatively little handling at allied operations. However, because this mail produces mostly "direct" IOCS tallies, under the Sellick/Degen approach it is burdened with a large portion of the mixed mail and not handling costs at allied operations.



1 A way to reduce this bias is by using the IOCS shape specific information on mixed  
2 mail and not handling tallies that is available in LIOCATT but ignored by Sellick.<sup>5</sup>  
3 In my direct testimony I tabulated (Table A-4, TW-T-1 at A-14: Tr. 26/13884) the  
4 shape specific not handling costs recorded at the various MODS cost pools and  
5 showed that many of these costs are incurred by employees clocked into the allied  
6 cost pools, presumably before or after they bring mail to be sorted at piece  
7 distribution operations. For example, at the preferential opening unit cost pool  
8 (1Oppref) the letter specific volume variable not handling costs are \$22.401 million,  
9 3.69 time larger than the \$6.069 million flat specific costs. Similar ratios apply to  
10 other allied cost pools and to the shape specific mixed mail costs (see table at page 6  
11 of my response to USPS/TW-T-2: Tr. 26/13923), even though the direct costs for flats  
12 at these pools are almost as large as the direct costs for letters.<sup>6</sup>

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<sup>5</sup> Sellick reveals his ignorance of this information in his description of the treatment of mixed mail costs under the "old" method, i.e. the LIOCATT:

The old method was much less refined; it assumed that mixed mail observed in OCR operations was similar to all direct mail at postal facilities of a similar size and Basic Function. The old method ignored the fact that mixed mail at OCR operations is more likely to resemble direct mail at OCR operations than direct mail at OCR and non-OCR operations. In fact, the old method completely ignored available operational data which recognize the different character of various mail processing operations. [UPS-T-2 at 8: Tr. 26/14167]

In reality, when an employee is seen at a letter specific operation (e.g., an OCR), whether he is handling mixed mail or not handling anything, the LIOCATT makes use of this information to distribute both mixed mail and not handling costs at letter operations on letter mail only. It does the same for flats and parcels. It is Sellick who ignores this important information.

<sup>6</sup> At the nine allied cost pools combined, the shape specific not handling costs are 66% letter related, 21% flat related and 13% parcel related. For shape related mixed mail costs, the corresponding percentages are 64% letter related, 24% flat related and 12% parcel related.

The total shape specific costs incurred by allied operation employees are undoubtedly larger than the costs I distributed directly to letters, flats and parcels in my testimony, because when an allied (e.g., opening unit) employee delivers mail to be sorted at, for example, an OCR, he will receive a shape specific code only when seen at the OCR, but a mixed shapes code when seen at the opening unit where he starts and ends his trip. Additionally, almost as much time is spent handling empty containers as containers with mail in them, and only containers with mail lead to shape specific codes. Mail that goes to piece distribution also undergoes additional preparation (e.g., traying, bundle breakage) that is not needed for the mail that bypasses piece distribution at allied operations.

1 In view of the unambiguous record evidence, the Commission must recognize the  
2 unique character of allied operations and treat separately the allied costs specifically  
3 related to letter, flat and parcel distribution, as outlined above. In addition, the  
4 remaining allied mixed mail and not handling costs should be distributed over all  
5 mail, not just mail receiving direct handling at the allied operations, since general  
6 functions such as loading, unloading and preparing mail for dispatch are performed  
7 for all mail.

8 In TW-T-1 I proposed to use the traditional breakdown by CAG and basic function  
9 instead of cost pools. Sellick, following Degen, has repeatedly asserted that a  
10 breakdown by MODS cost pools is the "superior" approach. A breakdown of costs by  
11 CAG is justified for the following reasons: (1) the percentage of not handling varies  
12 greatly across CAG's, from 42% in CAG A to 12% in CAG H; (2) different types of  
13 mail receive different portions of their handling in large and small facilities; (3)  
14 clerks and mailhandlers frequently migrate across pools but not across CAG's; and  
15 (4) CAG's are the basis upon which the IOCS sampling scheme is designed. Basic  
16 function is significant because some classes of mail are mostly processed as  
17 "incoming," and much less as "outgoing."

#### 18 **IV. MODS WORKHOUR AND VOLUME DATA CAN BOTH PROPERLY BE** 19 **RELIED ON WHEN THEIR LIMITATIONS ARE UNDERSTOOD.**

20 Although Sellick alleges severe problems with the MODS volume data used by  
21 Bradley, he asserts there are no problems at all with the MODS workhour data used  
22 by Degen. In the following I discuss how the MODS volume and workhour data can  
23 and cannot be used.

##### 24 1. MODS Volumes

25 MODS provides two types of volume estimates at piece sorting operations. First  
26 handling pieces (FHP) is the number of letters, flats and parcels that receive piece  
27 sorting at least once in the given facility. FHP estimates do not necessarily reflect the  
28 workload in a facility, since each piece is counted only once, even if it undergoes

1 several sorts. Nor do they correspond to total mail volume, since they exclude  
2 pieces that bypass all piece sorts.

3 Total piece handlings (TPH) on the other hand, do represent workloads at piece  
4 sorting operations, i.e. the total number of sorts performed, and were therefore  
5 appropriately used by Bradley to analyze the relationship between changes in  
6 workload (TPH) and changes in workhours. The only question with regard to  
7 Bradley's volume data is therefore whether the TPH estimates are reliable. For  
8 automated and mechanized sorting operations, TPH are derived directly from  
9 machine readings. There is no evidence of any problem with these machine  
10 readings, and consequently no doubt about the appropriateness of the workload  
11 measures Bradley used for the BCS, OCR, LSM and FSM cost pools. These pools also  
12 provide most of the cost driving volume in Bradley's analysis of allied cost pools.

13 For manual distribution operations (e.g., the Manl, Manf and Manp MODS pools),  
14 TPH estimates are derived from first handling pieces (FHP) estimates, which again  
15 result from a combination of cancellation machine readings and applications of  
16 conversion factors to either pounds or linear feet. Even if these conversion factors  
17 are not accurate, a systematic bias would not affect Bradley's analysis of variations in  
18 volume and workhours. If, for example, conversion factors during the period  
19 studied by Bradley consistently doubled the true volumes, this would not affect his  
20 estimates of variability. The only thing that could affect Bradley's analysis at  
21 manual pools would be significant changes in the true conversion factors during the  
22 period that he analyzed. But such changes, if they did occur, are most likely to have  
23 been caused by what Bradley called "manual ratios," which he explicitly accounted  
24 for in his models. USPS-T-14 at 16-17 and 60.

## 25 2. MODS Workhours

26 The MODS workhour data show how much time employees were clocked into each  
27 three-digit MODS number and therefore each Bradley/Degen/Sellick cost pool.  
28 Used with the pay data system, MODS also provides the accrued costs at each cost  
29 pool in MODS offices. On the other hand, MODS provides no information on what  
30 employees were actually doing, only what operation they were clocked into. To the

1 extent that there are conflicts between the operation an employee was clocked into  
2 and the employee's location and type of activity as reported by the IOCS clerk, the  
3 IOCS observation must be used to assure a correct cost distribution.

4 Sellick does not appear to have studied the appropriateness of using MODS  
5 workhour data as basis for the distribution he proposes. He simply asserts that  
6 Degen has adequately responded to questions about "misclocking." Neither Sellick  
7 nor Degen appears to have grasped that so-called "misclocking" is not the major  
8 issue affecting use of MODS workhour data. Two other factors are of much greater  
9 importance:

- 10 (1) Mail processing employees clocked in at certain operations, particularly  
11 allied operations, are often legitimately present at other operations, as when  
12 an opening unit employee brings mail to be sorted at a letter operation after  
13 it has been prepared for sorting (e.g., trayed) at the opening unit.
- 14 (2) Not handling costs have skyrocketed, for which no rational explanation has  
15 been offered other than that increased not handling could be expected at  
16 automated operations; yet most not handling occurs at manual operations  
17 that in the past did fine without it. This, combined with incentives for  
18 managers to send idle employees to operations where productivity is not  
19 being monitored (e.g., opening units), indicates that one cannot simply  
20 assume these not handling costs are a function only of the cost pools where  
21 the employees are clocked.

22 I indicated in Section III that the first of these factors could be at least partially  
23 accounted for, even in a pool-by-pool cost distribution, by using the shape related  
24 information about some mixed mail and not handling costs that is provided by the  
25 IOCS. Unfortunately, I see no reliable way to distribute the remaining very large not  
26 handling costs at allied and other manual operations. Since no plausible  
27 explanation exists other than that these high costs are somehow related to  
28 automation, in ways never precisely identified, I chose in TW-T-1 to treat these costs  
29 conservatively as an equal responsibility of all processed mail, i.e., as general  
30 overhead, although it might be more correct to assign a larger share of such costs to  
31 the most automated mail.

32 Sellick and Degen simply ignore these issues, reflecting their lack of understanding  
33 of the dynamic interactions across operations that drive mail processing costs.

1 "Misclocking" (working at one pool while clocked into another) clearly does occur,  
2 although to what precise extent is not known. However, the main arguments  
3 presented here and in TW-T-1 do not depend on the existence of misclocking.

4 **V. CONTRARY TO WITNESS NEELS, COMMON SENSE AND OPERATIONAL**  
5 **REALITIES INDICATE THAT VOLUME VARIABILITY MUST BE LESS THAN 100**  
6 **PERCENT.**

7 In TW-T-1 I gave two reasons for accepting Bradley's finding that volume variability  
8 is less than 100% in mail processing: (1) that it is intuitively obvious; and (2) that  
9 with the very large slack time in today's mail processing, evidenced by high not  
10 handling costs, increased volume would give the Postal Service an opportunity to  
11 make more efficient use of its employees, rather than simply hiring more.

12 Regarding my comment that it is "intuitively obvious" that mail processing costs  
13 are less than 100% volume variable (TW-T-1 at 3: Tr. 26/13817), I have since noticed  
14 witness Neels' claim that "Common sense indicates that labor costs should be fully  
15 variable" (UPS-T-1 at 5: Tr. 28/15591) and OCA's reaffirmation in its trial brief (at 32-  
16 33) of its faith that 100% is the intuitively obvious figure for mail processing  
17 volume variability. Evidently, some further elaboration is needed on what indeed  
18 is "intuitively obvious."

19 To claim that mail processing costs are 100% volume variable is equivalent to  
20 claiming that there are no economies of scale in the system, so that it costs the Postal  
21 Service as much to process the last 100 million pieces that enter the system as the  
22 first 100 million pieces; as much per individual to train ten clerks as a hundred, or a  
23 thousand; as much per machine to buy 20 OCR's as 200; and that the additional  
24 OCR's and BCR's the Postal Service buys in response to increased volume will have  
25 no technological improvements over the ones they bought originally. Mail  
26 processing facilities are similar to manufacturing plants, with the arriving unsorted  
27 mail representing the raw materials and mail ready for delivery by carriers  
28 representing the final product. It is impossible to think of any manufacturing  
29 industry where it is not believed that higher volumes will lead to improved  
30 efficiency and lower unit costs.

1 Within Postal Service mail processing activities, there are numerous examples  
2 where increased economies will result from higher volumes, even assuming no  
3 change in the current high level of not handling costs.<sup>7</sup> Perhaps the simplest  
4 example is the largest and most costly sorting scheme, referred to as "incoming  
5 secondary," where mail already sorted to the five-digit ZIP code level is further  
6 broken down to carrier route. It is the largest sorting scheme because most presorted  
7 mail bypasses all preceding sorts. It is performed using manual, mechanized or  
8 automated sorting methods. The problem facing postal managers is that the  
9 number of five-digit zones they must sort the mail to far exceeds the number of  
10 machines available for sorting, and a machine can sort to only one or at most two  
11 zones at a time. Furthermore, most of this sorting must be done in a relatively  
12 short time period before dispatch to delivery units. The result is a series of short  
13 runs, in between which substantial setup time is needed to clear the machine of the  
14 mail to the zone just sorted and set up for the next zone.

15 Consider sorting on flat sorting machines (FSM's). There are about 800 FSM's and  
16 over 400 SCF's, so that an SCF is likely to have no more than a few machines while  
17 it may have over 100 zones to which the mail must be sorted. Assume that mail  
18 volume doubled and that the Postal Service eventually adjusted by doubling the  
19 number of FSM's. It could then not only double the length of its sorting runs,  
20 cutting average setup costs in half, but would be able to use FSM sorting to  
21 additional zones where, due to insufficient volumes, manual sorting is today  
22 considered more economical.

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<sup>7</sup> It is fallacious to assume that the Postal Service would respond to increased volume by building more facilities rather than expanding existing ones or utilizing any excess capacity that may already exist. The Postal Service in fact has for many years been closing small offices and consolidating its operations into large plants, in order to achieve volume efficiencies. When it builds completely new facilities it is generally because of practical problems in expanding existing buildings in downtown areas, or because of the need to serve growing suburbs. When there is more than one processing plant in the same area, there is usually a division of processing functions, again due to the pursuit of volume efficiencies.

1 VI. CONCLUSIONS.

2 Over the last ten years, mail processing cost distribution under IOCS has produced  
3 sharply counterintuitive results, for reasons the Postal Service cannot explain. In  
4 this docket, much new information has become available that could improve  
5 understanding of the factors that drive mail processing costs and help in  
6 determining what information is still needed in order to reliably attribute these  
7 costs. However, the ignorance and disregard exhibited by Sellick, of operational  
8 realities, of historical trends, and of much useful information collected by IOCS  
9 clerks -- which derives from Degen's disregard of these matters -- has resulted in  
10 proposals that in fact are much worse than the system they would replace.

11 In TW-T-1 I presented numerous reasons for rejecting these proposals. Due to the  
12 paucity of data required for a truly accurate distribution of mail processing costs, I  
13 proposed, as a conservative interim solution, an alternative approach that, like  
14 Degen's, implements Bradley's variability analysis but that otherwise retains most of  
15 the features of the LIOCATT method.

16 The arguments I presented in TW-T-1 and in my interrogatory responses do not  
17 need to be repeated. In this rebuttal testimony I have provided reasons for rejecting  
18 the Sellick/Degen approach, focusing in particular on allied operations where the  
19 pool-by-pool method causes the largest distortions, due to its failure to consider the  
20 multifaceted nature of these operations and their interaction with other cost pools.

21 The main fallacy in the Sellick/Degen approach is the treatment of cost pools as  
22 separate compartments, ignoring the interaction between these pools that has been  
23 discussed in detail in my testimony and recognized in this docket by witnesses  
24 Bradley, Moden and even Neels. As I have shown, Degen's results, and therefore  
25 Sellick's, are inconsistent with Bradley's in the one area where a direct comparison  
26 is possible.

27 I believe the conservative approach presented in my direct testimony is the best  
28 available at this time. In particular, the Commission should not ignore the clear  
29 record evidence in this docket on the unique nature of allied operations, which are

1 much less homogenous than other processing functions. Almost \$700 million in  
2 accrued costs is spent by allied labor personnel just in bringing mail to and from  
3 letter, flat and parcel piece distribution operations, and the distribution should  
4 reflect this.

5 Additionally, the Commission should adopt the volume variability factors  
6 computed by Bradley. If the experience of postal managers did not confirm that  
7 there are economies of scale to be achieved through higher volumes, they would  
8 not have embarked on their long range program of consolidating processing  
9 functions into larger plants and eliminating small offices. I have shown above that  
10 the arguments against use of MODS TPH data are mostly ill-conceived or trivial,  
11 and I have provided some further, non-statistical common sense reasons that  
12 confirm Bradley's conclusions.



# CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

  
\_\_\_\_\_  
James R. Cregan

March 9, 1998